



Rialtas na hÉireann
Government of Ireland

LOCAL GOVERNMENT AUDIT SERVICE

Statutory Audit Report

to the

Members of Galway County Council

for the

Year Ended 31 December 2019

Department of Housing, Local Government and Heritage

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AUDITOR'S REPORT TO THE MEMBERS OF GALWAY COUNTY COUNCIL

1 Introduction

I have audited the Annual Financial Statement (AFS) of Galway County Council for the year ended 31 December 2019, which comprise the Statement of Accounting Policies, Statement of Comprehensive Income, Statement of Financial Position, Funds Flow Statement and notes to and forming part of the accounts. The financial reporting framework that has been applied in its preparation is the Code of Practice and Accounting Regulations for Local Authorities, as prescribed by the Minister for Housing, Local Government and Heritage.

My main statutory responsibility, following the completion of the audit work, is to express my independent audit opinion on the AFS of the Council, as to whether it presents fairly the financial position at 31 December 2019 and its income and expenditure. My audit opinion, which is unmodified, is stated on page 6 of the AFS.

The Council is by law, responsible for the maintenance of all accounting records including the preparation of the AFS. It is my responsibility, based on my audit, to form an independent opinion on the statement and to report my opinion. I conducted my audit in accordance with the Code of Audit Practice. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the AFS. It also includes an assessment of the significant estimates and judgements made by the Council's management in the preparation of the AFS, and of whether the accounting policies are appropriate to the Council's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations, which I considered necessary, to provide sufficient evidence to give reasonable assurance that the Financial Statement is free from material misstatement, whether caused by fraud or error.

This report is prepared in accordance with Section 120(1) (c) of the Local Government Act, 2001 and should be read in conjunction with the audited AFS.

2 Non – adjusting post balance sheet event – COVID-19

2.1 Disclosures in Annual Financial Statements

In accordance with Circular Fin 05/2020, the Council included a note in their Annual Financial Statements (note 23) in relation to COVID-19. The note refers to the impact of COVID-19, a non-adjusting post balance sheet event, and describes the uncertainty faced by the local authority as a result.

Whilst my opinion is not qualified as a result of the uncertainty, I have included an Emphasis of Matter paragraph.

2.2 Financial uncertainty

The COVID-19 outbreak and the emergency measures taken to mitigate it have had a significant impact on the finances of the Council post year-end 31 December 2019. This has resulted in a reduction in, and uncertainty of, various income sources, together with increased levels of spend. Reductions in income have also had a bearing on the cash flow of the Council and the ability to deliver services.

2.3 Actions taken to address the financial uncertainty of COVID-19.

The Council has taken several steps to address the financial uncertainty both at local and national level including

- Income and expenditure review
- The Council participated in the submission of acute financial management reports to the Department of Housing, Local Government and Heritage (DHLGH), namely
 - Indicative figures calculating the impact of COVID-19 on 2020 Commercial Rates
 - Analysis of Rated Properties impacted by COVID-19
 - Analysis of Local Government Goods and Services income impacted by COVID-19
 - Analysis of Local Government Emergency Costs associated with the Public Health Emergency 2019.
 - Analysis of Local Government Good and Services Income impacted by COVID-19 – Updated September 2020.

Chief Executive's Response

The Government have provided financial assistance in respect of commercial rates for 9 months of 2020 and additional funding for additional costs due to COVID-19 and reduced income from other sources has also been committed by Government.

The Government has also confirmed financial support for 2021 should this prove necessary although has indicated that this funding may be more targeted than in 2020.

The Council will continue to monitor all relevant issues carefully, making ongoing adjustments where required.

3 Financial standing (at 31 December 2019)

3.1 Statement of Comprehensive Income

In 2019, the Council recorded a surplus of €16.8K after making net transfers to reserves of €2.1m. As a result, the cumulative deficit in the Revenue Account was eliminated and a surplus in general reserves was recorded of €4.8K.

The €16.8K surplus includes the write down of the specific revenue reserve for €16.5k in accordance with the Department's Circular Fin 11/2016. Therefore, the Council made a yearly operational surplus of €267 for year ended 2019. At year end the specific revenue reserve was €211.5K.

Variances between the adopted budget and the actual financial performance are detailed in Note 16 of the AFS. Members' approval, as required by Section 104 of the Local Government Audit 2001, for the expenditure in excess of the annual budget was obtained at the Council meeting of 27 July 2020.

Overall, there is a need to continue to maintain strong financial management controls.

3.2 Financial position

The significant movements in the Council finances were:

- A decline in capital spend of €8.8m, mainly due to a reduction in landfill levy costs (€4.3m), decrease in contractor payments (€2m), transfer of SICAP from capital account to revenue account (€1.7m), land purchases at Moycullen (€1m), land purchases at Droimina Gaoithe (€1m) and other (€2.8m).
- An increase in accumulated cost of fixed assets of €34.5m mainly due capitalisation of Tuam by-pass (€13.3m) and Tuam area offices (€7.9m) and purchases of accommodation units (€13.1m).
- An increase in road transportation and safety division expenditure of €11.6m mainly due to grant allocations in excess of budgeted amount.
- Gap in year between pension payments (€9m) and pension income (€1.4m) of €7.6m.
- An increase in capital advance leasing facility debtor (€2.8m), due to recognising thirteen loans for approved housing bodies. Also, there is an increase in other creditors (€2.8m) to reflect the loans payable to Housing Finance Agency from the thirteen loans.

3.3 Capital Account analysis

The cumulative credit balance on the Capital Account declined by €500K to €20.8m.

Chief Executive's Response

The Council is aware of the limitations on the Capital Account and the significant potential draw on this in the coming period in respect of matching funds for capital projects.

4 Income collection

4.1 Summary of the major revenue collections

A summary of the major revenue collections is:

Income Source	Yield %		Debtors €	
	2019	2018	2019	2018
Rates	87%	86%	€5,728,393	€5,472,309
Rents & Annuities	91%	91%	€808,173	€746,362
Housing Loans	79%	76%	€580,399	€635,663

4.2 Rates

The closing arrears for rates increased by €310k to €5.7m. The amount collected increased by €50k to €23.2m. The increase in the collection of rates is welcome.

Valuations

At 30 December 2019, the Council had 325 properties awaiting valuation from the Valuation Office. The Council should continue to work with the Valuation Office to ensure the valuations are completed promptly.

Provision for Bad Debt

The provision for bad debts was €4.2m. The provision is approximately 73% of arrears. In light of the adverse impact of COVID-19 on ratepayers, the provision for bad debt in the 2020 annual financial statements will need to be cognisant of the new economic environment.

4.3 Rents

The closing arrears for rents increased by €62K to €808K. The amount collected increased by €280K to €8.2m. The increase in the collection of rents is welcome.

Rent reviews of Housing Assistance Payment tenants (HAP)

A large-scale rent review of HAP tenants has yet to be undertaken. This review is necessary to ensure conformity with the terms of the rental agreements.

Provision for Bad Debt

The provision for bad debt was €615k. The provision is approximately 76% of arrears. In light of the adverse impact of COVID-19, the provision for bad debt in the 2020 annual financial statements will need to be cognisant of the new economic environment.

4.4 Housing loans

The closing arrears for decreased by €55K to €580K. The provision for bad debt remained unchanged at €280K. The provision is approximately 48% of arrears.

As at 31 December 2019, the Council had 468 loan accounts of which 96 (21%) were in arrears greater than 3 months. In monetary terms, loans arrears greater than 3 months had reduced from €604K to €540K.

4.5 Conclusion

Improving collection yields during the COVID-19 outbreak will be a significant challenge. All efforts to improve the collection yields should continue.

Chief Executive's Response

The Council is very aware of the challenges that arose due to COVID-19 but will continue to keep a clear focus on income collection across all income streams.

5 Transfer of Water and Sewerage Functions to Irish Water

The Water Services Act (No 2) 2013 was enacted in December 2013 and provides for the transfer of water services from the Local Authorities (LA's) to Irish Water (IW) from January 2014. In addition, the Act provided for the transfer of assets and certain liabilities related to water services from LA's to IW.

5.1 Balancing Statement

The balancing statement is not yet finalised. It is important that the finalisation of the balancing statement is completed in the short term.

5.2 Service Level Agreement

Approximately €8.5m was accrued for IW with €729K outstanding at year end.

5.3 Water related loans

As at 31 December 2019, the Council had loans for water activity with an approximate value of €3.4m. The cost of repaying capital and interest on these loans is funded by the DHLGH.

5.4 Water related rates

The Council recouped rates income of €11K for IW businesses from the DHLGH in accordance with Department Circular L3/2017.

5.5 Water related development levies

In December 2019, the Council made a payment of €2.7m to IW for development levies received related to water works in 2015-2018. At year-end, development levies received relating to water works for 2019 had not been transferred to IW where applicable.

5.6 Water related assets

An asset transfer working group was established between the local authority sector and IW to resolve title issues and similar matters in the short term.

At June 2020, the ownership of water assets were

• Local authority owned	22
• Registered to 3 rd party	48
• Mixed ownership	8
• Unregistered	10
• To be determined	4
• Transferred to IW	<u>162</u>
• Total	254

Assets that are either registered to a third party, mixed ownership, unregistered or registration is to be determined represent 28% (70) of the overall total. The Council should continue to work with IW and other bodies to resolve the title issues in the short term.

Chief Executive's Response

The Council is committed to continue the process of asset transfer and will continue to take all appropriate actions in this regard. Water services development contributions payable to Irish Water are decreasing but will be transferred on an annual basis.

6 Capital Account

6.1 Capital balances – unfunded

A large sample of capital accounts were reviewed. From this sample, unfunded balances were identified totaling €10m. The unfunded balances by division are

- | | |
|------------------------------------|-------|
| • Housing & Building | €3.0m |
| • Roads, Transportation and Safety | €6.4m |
| • Miscellaneous Services | €0.6m |

The general reasons provided for the unfunded balance include

- | | |
|---|-------|
| • Costs on road projects | €3.9m |
| • Assets purchased and not yet sold, utilised or financed | €3.6m |
| • Projects requiring funding | €2.5m |

Overall, the Council should address the unfunded balances in the short term.

Chief Executive's Response

The requirement to address the unfunded balances is understood and once the Council is in a financial position to do so this matter will be addressed as a priority.

7 European Capital of Culture: Galway 2020

7.1 Overview

Galway is the European Capital of Culture in 2020.

In April 2017, the Council adopted a motion to make a contribution of €2m to Galway Cultural Development and Activity Company Limited (hereinafter Galway 2020). The Council minutes for April 2017 records that the funding for the project could be the savings on the annual loan payments for the county hall after the loan redemption. The final loan payment for the county hall occurred in December 2018.

In April 2019, the Council approved a further €2m in funding. The funding was allocated €1.5m towards events and €500K towards legacy costs. The approval brought the total allocation to €4m.

As at 30 December 2019 the contributions paid were

- 2017: €500K
- 2018: €875K
- 2019: €625K

The total contributions to Galway 2020 at 30 December 2019 is €2m. Accordingly, at year end 2019, the Council had not paid the full allocation.

7.2 Financing the contribution

The Council has a general provision to fund capital debit balances. At December 2019, the provision was €500K. I was advised that this fund is for Galway 2020 or other unfunded capital balances.

At the time of my review in August 2020, the capital job for Galway 2020 had a debit balance. The debit balance includes the contributions to year end 2019.

It would be helpful to clearly demonstrate that the savings on the annual loan payments (paragraph 7.1) are directly addressing the debit balances created by the contributions to Galway 2020.

7.3 Update on Service Level Agreement

An initial Service Level Agreement (SLA) was agreed between the Council and Galway 2020 in March 2018. An updated SLA was revised and agreed in Jan 2020.

The revised SLA agreed between the Chief Executive of Galway County Council and Chief Executive Officer of Galway 2020 sets out funding arrangements, roles, deliverables, performance monitoring, eligibility rules and audit requirements. The revised SLA was agreed prior to COVID-19.

Chief Executive's Response

The Council has now made all the payments required to Galway 2020 under the SLA. The contribution was not as high as originally envisaged as some county projects did not proceed. In the preparation of budget 2021 it has become necessary to temporarily cease the transfer of €500K to Capital in order to maintain services as close to their current level as possible.

8 Fixed Assets

8.1 Assets management

A property interest register working group was established in March 2019. It consists of staff members from Corporate Services, Housing Division, Roads Division, Law Agents, Information Technology Unit and Finance Unit. In 2019, the group progressed many issues including

- Reviewing land banks for social housing potential.
- Matching assets on law agents asset register (LAR) to assets recorded with Property Registration Authority (PRA).
- Identifying land owned by Council and to be registered with PRA.
- Identifying burials grounds for first registration with PRA.
- Progressing the first registration of 'Lands post-1967' that are unregistered.
- Progressing land dedications to be registered with the PRA.
- Ensuring Eircodes assigned to housing assets.
- Deconstruction of omnibus folios.

The group should continue to progress its important work.

Chief Executive's Response

The Council appreciates the need to continue to make progress on its asset register.

9 MyPay shared services

9.1 Payroll shared services

MyPay is the service provider for payroll shared services in local government. An ISAE audit (International Standard of Assurance Engagements (ISAE 3402)) type 2 report is required annually from the payroll shared services.

There were two audit reports received in 2020:

- In February 2020, the Council received an audit report titled "My Pay Shared Services Centre Report on controls placed in operation for the period 1 April 2018 to 31 December 2018".
- In October 2020, the Council received an audit report titled "My Pay Shared Services Centre Report on controls placed in operation for the period 1 January 2019 to 31 December 2019".

It is welcome that the audit reports have begun covering the full financial year. However, it is my view that the type 2 audit reports should be completed on or before the completion deadlines for annual financial statements.

Chief Executive's Response

The Council will continue to seek the required reports within the appropriate timeframe.

10 Shared Services with Galway City Council

10.1 Overview

The Council and Galway City Council provide some services on a shared basis e.g. fire services and the library. The Council received €7m towards service delivery costs in the year 2019.

10.2 Arrears

In 2017, the Council and Galway City Council held deliberations in relation to the funding of shared services. A process was agreed for an independent assessment of the proportion of fire service costs to be paid by each authority on an annual basis.

The independent assessment issued a recommendation on how to split costs which has been accepted by the County and City Council. Thereafter, discussion between the County and City occurred on how to progress the recommendations in relation to the calculation and payment of arrears. In 2019, discussions continued to advance the resolution of the issues.

Chief Executive's Response

Discussions have continued with Galway City council in relation to shared services and it is hoped to finalise matters in the near future.

11 Register of Vacant sites

11.1 Register of Vacant sites

Under the Urban Regeneration & Housing Act 2015, all planning authorities are required to establish and maintain a register of vacant sites. An identified vacant site can be entered on the register when the authority is of the opinion that it has been vacant for a minimum of 12 months preceding the date of entry. Sites on the register of vacant sites are subject to a levy each year. The first levy is payable in 2019 for sites in the register at year end 2018.

I note that work is underway to identify potential sites that may fall under the vacant site criteria for inclusion in the register of vacant sites. However, the Council has yet to formally establish a register of vacant sites and apply appropriate levies.

Chief Executive's Response

There is a requirement to provide supporting policies and objectives in the county development plan before establishing the register of vacant sites. The county development plan is currently under review and the vacant sites register will be a priority once the plan has been adopted.

12 Audit adjustments

12.1 Overview

An audit adjustment occurs where a figure in the financial statement differs from the amount as determined by the auditor. During the audit, audit adjustments were identified.

12.2 Audit adjustments

The following audit adjustments were identified which have no impact on the revenue account:

- Link road opened between the Athenry by-pass and a school is to be capitalised. It is recommended that the appropriate adjustment be made.
- The investment in Irish West Airport for €912.5k was not disclosed in long-term debtors. It is recommended that the appropriate adjustment be made.
- Assets acquired under Part V agreements totalling €561K were not capitalised. It is recommended that the appropriate adjustments be made.

None of the audit adjustments have an impact on the revenue account.

Chief Executive's Response

The adjustments will be carried out in AFS 2020.

13 Governance

13.1 Overview

Corporate governance comprises the systems and procedures by which an entity is directed or controlled. It is the responsibility of the Chief Executive to ensure sound systems of financial management and internal processes are in place.

13.2 Internal audit

The internal audit unit completed a programme of audits during 2019. I took account of the internal audit reports as part of my audit planning.

13.3 Risk management

The risk management environment continues to be improved.

The Council has a risk register. The risk register reports risks by directorate. Risks are assigned to a risk owner. Risks are categorised into financial, operational or reputational. Each risk has a weighted score that has regard to impact and likelihood. In addition, risks have an accompanying control action and a designated frequency for review e.g. weekly, monthly checks.

The risk register development is an on-going activity in the Council. I noted improved co-ordination and increased participation in the updating of the register has led to a more detailed register. Nonetheless, more improvements are required particularly relating to documenting risks, existing controls and future action.

13.4 Data protection

The EU General Data Protection Regulation (GDPR) provides a single, harmonised data privacy law for the European Union and was directly applicable from 25 May 2018. Public bodies whose activities have a commercial comparative in the private sector are subject to fines in the event of an infringement. As such, County Councils are subject to fines.

The Data Protection Officer (DPO) is a leadership role in the implementation, administration and compliance with GDPR. It is welcome that the Council has designated the position a full time role. There are many aspects to the role including embedding sound governance structures, formulating policies, rolling out training programs, monitoring, compliance and enforcement.

There is a large body of work on going in this area throughout the Council. I noted that data protection co-ordinators have been designated in business units to support co-ordination and administration of GDPR compliance activities. Resources are available to staff on the Council's intranet to guide them in their daily decision making in respect of GDPR. GDPR training is an on-going activity. Work is progressing to complete a record of processing activities, ensure relevant data sharing agreements are in place and robust policies are developed having regard to GDPR requirements. Overall, GDPR consumes considerable time and resources across the numerous services provided by the Council.

In my view, the Council should continue to ensure that adequate resources are allocated to ensure compliance with the GDPR, particularly policies in the area of CCTV, the completeness of the record of processing activities and coverage of data sharing agreements.

13.5 Ethics

Section 171 of the Local Government Act 2001 requires those to whom Section 167 (1) of the Act applies, typically council members and senior staff, to submit an annual declaration to the nominated Ethics Registrar. Statutory Instrument No 582/2002 sets the last day of February as the return date for these forms.

The responsibility for completion of the ethics return rests with the Councillor or staff member for whom the Council deemed the legislation applicable.

Members

All members returned their annual declaration before the statutory deadlines.

Staff

Twenty-seven staff returned their annual declaration after the deadline for submission. Twenty-three staff of those that were late returned their submission within two weeks of the statutory deadline. All staff should ensure the statutory deadlines are met going forward.

13.6 Fraud policy

A fraud prevention and contingency plan sets out responsibility, roles and tasks for the prevention and detection of fraud. Additionally it sets out the corporate tone and actions when dealing with fraud. An updated fraud prevention and contingency plan is under review by the Executive Team.

13.7 Procurement

A procurement check system on requisitions in the financial management system (i.e. Agresso) is used sporadically. Different products are managed at different times of the year. It is recommended that the procurement checks in the financial management system be put more broadly and consistently in use.

13.8 Public Spending Code

The Council completed the "Quality Assurance Report for 2019" in June 2020. The report reflects the Council's self-assessment of compliance with the Public Spending Code. The report concluded that the Council has a "satisfactory level of compliance" with the code.

Chief Executive's Response

The Council attaches a high priority to good corporate governance and will continue to monitor and address all issues as required.

14 Acknowledgement

My appreciation for the courtesy and co-operation extended to the audit team by Kevin Kelly (Chief Executive), Gerard Mullarkey (Head of Finance), Áine Fenton (Accountant), Michael McGovern (Accountant) and all management and staff of the Council.

DONAL CAHILL

8 DECEMBER 2020

Donal Cahill
Local Government Auditor

Date

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